

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04

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FM AMEMBASY COLOMBO

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E.O. 11652: N/A

TAGS: EINV,ETRD,EFIN,CE

SUBJECT: INCENTIVES FOR INVESTORS IN SRI LANKA'S FREE TRADE ZONE

REF: A-21, FEBRUARY 28, 1978

1. THE GREATER COLOMBO ECONOMIC COMMISSION (GCEC) ISSUED THE FOLLOWING COMMUNIQUE ON MARCH 16, 1978(AS PUBLISHED IN THE MARCH 17 DAILY NEWS, OUTLINING THE INCENTIVES AVAILABLE FOR INVESTORS IN THE FREE TRADE ZONE.

2. QUOTE: WITHIN THE GREATER ECONOMIC COMMISSION'S AREA OF AUTHORITY (I.E. THE FREE TRADE ZONE) THERE WILL BE DEMARCATED SEVERAL INVESTMENT PROMOTION ZONES.THE FIRST SUCH INVESTMENT PROMOTION ZONE WILL BE SITED AT KATUNAYAKE, ADJACENT TO SRI LANKA'S INTERNATIONAL AIRPORT. THIS INVESTMENT PROMOTION ZONE (IPZ) IS APPROXIMATELY 600 ACRES IN EXTENT,AND IS LOCATED APPROXIMATELY 18 MILES FROM THE PORT OF COLOMBO.SITES IN THIS IPZ WILL BE ALLOCATED TO INVESTORS ON A 99 YEAR LEASE BASIS ON THE PAYMENT OF AN INITIAL PREMIUM PLUS AN ANNUAL NOMINAL QUIT RENT.

3. THE GREATER COLOMBO ECONOMIC COMMISSION

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WOULD BE PROVIDING ADEQUATE AND MODERN INFRASTRUCTURE FACILITIES TO THIS AREA.THESE WOULD INCLUDE AN AIR CARGO TERMINAL, A CONTAINER MARSHALLING YARD FOR SEA GOING CONTAINERS,RAPID TELECOMMUNICATION SYSTEM AND SPECIAL BANKING AREA. THE AIR CARGO TERMINAL AND THE CONTAINER MARSHALLING YARD WOULD BE OPERATED BY THE COMMISSION.

4. THIS INVESTMENT PROMOTION ZONE WOULD BE SUPPLIED WITH WATER, POWER, AND SOPHISTICATED TELEPHONE AND TELEX SERVICES.

5. THE AREA OF THE IPZ WOULD BE WELL ROADED AND SITUATED IN A HIGHLY DEVELOPED AND POPULATED AREA WITH ROAD, RAIL AND AIR COMMUNICATION IN CLOSE PROXIMITY AND FIRST CLASS HOTELS AND HOUSING ACCOMODATION WITHIN EASY REACH.

6.(A) INDUSTRIES

INVESTMENT INCENTIVES WILL BE GIVEN ON A GRADED SCALE I.E. ON THE SITING OF FACTORY IN THE IPZ CREATION OF EMPLOYMENT EXPORT ORIENTATION, CAPITAL INVESTMENT AND DEVELOPMENT OF TECHNOLOGY. ACCESS TO LOCAL MARKET ON A NEGOTIATED BASIS FOR INDUSTRIES SITED WITHIN THE IPZ WILL BE ALLOWED THROUGH A CUSTOMS WAREHOUSE OPERATED BY THE COMMISSION ON PAYMENT OF CUSTOMS DUTY. OTHER COMMISSION APPROVED PROJECTS SITED OUTSIDE THE IPZ BUT WITHIN THE AREA OF AUTHORITY WOULD BE GIVEN CONCESSIONS ON IMPORTED MATERIALS PROVIDED THEY ARE 100 PERCENT EXPORT ORIENTED.

7. ALL IMPORTS OF EQUIPMENT, CONSTRUCTION MATERIAL AND INPUTS EXCEPT GENERALLY TRANSPORT VEHICLES MADE BY THE LICENSED ENTERPRISES WOULD BE FREE OF IMPORT DUTY WHILE IMPORT AND EXPORT BOTH WOULD BE FREE FROM CONTINGENTS UNCLASSIFIED

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EXPORT DUTY HOWEVER WOULD BE ENFORCED.

8. REDUCED OR EXEMPTED DUTIES ON FINISHED GOODS AFTER DUE CONSIDERATION OF EACH INDIVIDUAL CASE ON THE BASIS OF CAPITAL INVESTMENT DEGREE OF PROCESSING OF LOCAL MATERIALS, TECHNOLOGY, ETC.

9. THE TAX INCENTIVES OFFERED TO LICENSED ENTERPRISES WITHIN THE AREA OF AUTHORITY WOULD BE:

-A TAX HOLIDAY PERIOD AVERAGING 5 YEARS FROM THE DATE OF COMMENCEMENT OF COMMERCIAL PRODUCTION.

-AFTER THE EXPIRY OF THE TAX HOLIDAY PERIOD INCOME TAX ON THE TURNS AT A RATE OF 2 PERCENT ON SALES TO COUNTRIES OUTSIDE SRI LANKA AND 5 PERCENT ON SALES TO SRI LANKA.

-10 PERCENT WITHHOLDING TAX ON ALL REMITTANCES OF ROYALTY AND TECHNICAL SERVICE PAYMENTS, AFTER TAX HOLIDAY PERIOD.

-ALL FOREIGN PERSONNEL ATTACHED TO THE GCEC LICENSED PROJECTS WOULD BE EXEMPTED FROM ALL TAXES FOR THE PERIOD OF THE TAX HOLIDAY OF THE PARTICULAR PROJECT.

-ALL DIVIDENDS, PAID TO NON-RESIDENT SHARE HOLDERS

OF THE LICENSED AREA PROJECTS WOULD BE FREE FROM ANY FURTHER TAXES OF ANY SORT, AND FREE OF ANY EXCHANGE CONTROL.

10. HOWEVER, ALL SUCH APPROVED ENTERPRISES WOULD BE REQUIRED TO ENTER INTO AN AGREEMENT WITH THE COMMISSION. THIS AGREEMENT INCLUDES GUARANTEES FOR THE FREE TRANSFER OF CAPITAL AND RETURNS AS WELL AS THE PROCESS OF LIQUIDATION.

11. ALL COMPANIES IN THE IPZ AND WITHIN THE AREA OF AUTHORITY (EXCEPT BANKS) SHOULD BE LOCALLY INCORPORATED COMPANIES BUT TRANSFERABILITY OF SHARES OF SUCH COMPANIES COULD BE DONE WITHIN OR WITHOUT SRI LANKA TO RESIDENTS
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OR NON-RESIDENTS AND THE COUNTRY OF APYMENT FOR USCH SHAREW COJLD BE DECIDED BETWEEN THE BDQERS AND SELLERS OF SUCH SHARES AND SUCH TRANSFERS WOULD NOT E SUBJECT TO ANY TAX OR LEVIES IN SRI LANKA.

12.(B) BANKING
BANKING INSTITUTIOS WILL BE AUTHORIZED TO OPERATE IN THE INVESTMENT PROMOTION ZONE. FOREIG BANKS WILL ALSO BE PERMITTED TO OPERATE WITHIN THE AREA OF AUTHORITY AND WOULD BE ALLOWED LOCAL GENERAL BANKING FACILITIES WITHIN THE AREA AND OFF-SHORE FACILITIES. THIS, HOWEVER, WOULD BE CONSIDERED ON A CASE BY CASE BASIS WHEN APPROVING THEM. THE BANKING INSTITUTIONS WOULD HAVE TO BE SITED WITHIN AN INVESTMENT PROMOTION ZONE. THESE INSTITUTIONS WILL BE ENTITLED TO A FIVE YEAR TAX HOLIDAY PERIOD AND A TAX RATE OF 5 PERCENT ON PROFIT THEREAFTER ON OFF SHORE BANKING PROFITS AND APPROXIMATELY 25 PERCENT ON GENERAL BANKING PROFITS. END QUOTE.
WRIGGINS

NOTE BY OC/T: TELEGRAM DELAYED IN TRANSMISSION.

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